



**Request for City Council Committee Action from the
Department of Community Planning and Economic Development (CPED) and the
Department of Finance and Property Services**

Date: December 5, 2013

To: Council Member Robert Lilligren, Chair, Committee of the Whole

Subject: Ryan Companies' Development Project for Downtown East

Recommendation: Receive and file

Previous Directives: November 1, 2013: The City authorized applications for environmental cleanup funding for the project. July 19, 2013: The City authorized staff to negotiate terms sheets and/or agreements with Ryan Companies and the Minnesota Sports Facilities Authority consistent with the general conceptual framework.

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Approved by: Charles T. Lutz, CPED Deputy Director

Approved by: Kevin Carpenter, City Finance Officer

Presenter in Committee: Charles T. Lutz, Kevin Carpenter

Financial Impact

- The City will issue up to \$65 million in taxable general obligation bonds to finance a portion of the project (as more fully described in this report).
- Annual debt service on the bonds will be paid from developer payments and net operating income from two parking ramps owned by the Minnesota Sports Facilities Authority.
- Forecasted revenue is sufficient to cover project debt service in all years the City has bonds outstanding.

Community Impact

- Neighborhood Notification: June 24, 2013 briefing at neighborhood meeting co-sponsored by the Mill District Neighborhood Association, the East Downtown Council, the Downtown Minneapolis Neighborhood Association, and Elliot Park Neighborhood, Inc. Elliot Park neighborhood and East Downtown Council have both issued letters (dated July 8, 2013 and June 28, 2013, respectively) in support of the project's overall development concept. Briefing to the Stadium Implementation Committee and June 13, 2013 approval of motion to support the vision of the project.
- City Goals: Jobs & Economic Vitality, Eco-Focused, Livable Communities
- Comprehensive Plan: Two of the blocks are guided for Commercial, the remainder is guided for Mixed-Use. The area is also designated as part of the Downtown Growth Center. The Planning Commission found the acquisition of up to two city blocks for a new downtown

park, the capital improvement project, and the establishment of the development district as consistent with the Comprehensive Plan. The Planning Commission has granted the project its land use approvals. Ryan has appealed the Heritage Preservation Commission's denial of its application for demolition for a historic resource; the appeal is to be considered by City Council.

- Zoning Code: Two of the blocks are zoned B4S-2, the remainder is zoned B4N, all are in the Downtown Parking Overlay District

Supporting Information

For years, the City, local neighborhoods, business leaders, and others have grappled with the challenge of bringing more consistent activity and new development to the Downtown East area around the Metrodome. The area has languished while the other downtown neighborhoods have received new investment, new residents, and new businesses. The Ryan Companies' proposed project is an opportunity to correct that imbalance and bring significant new investment, development and amenities to Downtown East.

This report provides an update on the project since the City Council's conceptual approval of it in July 2013 and summarizes the major terms of the deal, which is subject to approval by all of the parties.

Project Components

The Ryan Companies' project is located on five blocks in Downtown East roughly bounded by 5th Avenue South on the west to Chicago Avenue on the east, 3rd Street South on the north to 5th Street South on the south, minus the block containing the Downtown East light rail transit station (see map). Ryan Companies has an agreement to purchase these five blocks from the Star Tribune. The blocks largely consist of surface parking lots along with three buildings: 425 Portland Avenue, 329 Portland Avenue, and 700/716 4th Street South.

Ryan Companies proposes to develop these blocks as follows:

- a) Over one million square feet of office space in two office towers on the two blocks bounded by 3rd and 4th Streets and 5th and Park Avenues (blocks 2 and 3 on the map). This is unchanged since July. Ryan anticipates execution of a purchase agreement with Wells Fargo for the office space by mid-December. There will also be approximately 12,000 square feet of retail space in the skyway level of the towers.
- b) A parking ramp of approximately 1,600 stalls on block 1, which is bounded by Chicago and Park Avenues and 3rd and 4th Streets (see map). The ramp will be open to the general public and provide a certain amount of dedicated parking on game days. Since July, the ramp size has increased and the number of stalls has increased by approximately 300 spaces because of the elimination of a proposed ramp on block 7 and the need to compensate for the loss of those spaces.
- c) Approximately 80 market rate multi-family housing units that will line the south side of the two office towers. These buildings will also contain a total of approximately 8,000 square feet of retail space at the street level.
- d) Approximately 120 market rate multi-family housing units on the westerly one-third of the western park block (block 4 on the map). Since July, Ryan has proposed to retain ownership of this land and develop these units concurrently with those units on the south side of the towers, rather than conveying the land to the City subject to a repurchase

option as was contemplated in July. This approach provides the City significant savings for the park capital budget by reducing the land acquisition cost and avoiding the related financing costs. The housing on the one-third block will be functionally integrated with the other market-rate housing, providing space for a common lobby, leasing office, lounge, and fitness area for all three buildings. The building is also expected to include at least 2,200 square feet of ground floor retail on the northeast corner of the building facing the park.

- e) The parcels on the north side of the two office towers will contain approximately 200 units of multi-family housing or if market conditions do not support housing, commercial space instead. Since July, Ryan has proposed developing housing on these parcels that would have some level of affordability. Ryan must commence construction on these parcels by June 1, 2018.
- f) Skyways connecting the Haaf Ramp to the office development, the office development to the Block 1 Ramp, and the Block 1 Ramp to the stadium. This is unchanged since July except that there is now no skyway connecting to the block 7 parking ramp since that ramp was eliminated.
- g) A new downtown park on the one and two-thirds blocks bounded by 4th and 5th Streets and 5th and Park Avenues for the public and for events occurring in the stadium (blocks 4 and 5 on the map). Since July, Ryan will no longer have a purchase option for the one-third of the westerly park block, but instead will retain ownership of that part of the block. This approach saves costs to the City. The City will purchase the property containing the park after Ryan completes the park improvements, or may take title prior to completion if necessary to secure applicable grants.

In addition, another block that is significant to the project is the one bounded by Park and Chicago Avenues and 4th and 5th Streets (block 6 on the map) that contains an existing parking ramp and the Downtown East light-rail station. Parking income from this parking facility will be combined with that from the ramp on Block 1 and be part of the City financing plan described below.

Financing Plan

Total development costs of the project are projected to be over \$400 million.

- Ryan Companies will privately finance the office towers, residential, and retail developments at a cost estimated to be over \$350 million.
- The Minnesota Sports Facilities Authority (MSFA) will fund \$28.9 million of project costs for the construction of skyways (\$10.7 million) and a portion of the Block 1 parking ramp (\$17.9 million).
- The City will finance approximately \$57 million of project costs (including \$1.6 million in other government grants) primarily by issuing general obligation bonds. This includes the park (approximately \$19 million, including \$1 million in other government grants), a portion of the Block 1 Ramp (approximately \$33 million), and other site costs (\$5 million, including \$0.6 million in other government grants). The expected sources of repayment for the bonds, discussed more below, will be payment obligations from Ryan Companies to the City and, thereafter, the income from the parking ramps.
- The Minnesota Vikings will make a \$1 million donation for improvements in the park.
- The project is also seeking available development assistance from other levels of government such as environmental remediation grants for site cleanup costs and a redevelopment grant for demolition costs

Summaries of the estimated sources and uses of funds for the project elements for which the City is providing financing follow:

Park

Total capital costs for the park are estimated to be approximately \$20 million. This includes approximately \$13.9 million for site acquisition, approximately \$3.8 million for asbestos abatement and demolition of the Star Tribune building and the cleanup of soils on both blocks, approximately \$1.1 million for items such as site grading, new sidewalks, seeded grass, irrigation, and electrical hookups, and approximately \$1.2 million for design, general conditions, contingency, construction fee, and inflation. The City will provide financing by issuing bonds for approximately \$18.0 million of the capital costs, the Minnesota Vikings will donate \$1.0 million for park improvements, and the City will seek at least \$1.0 million in grants from other levels of government to finance the environmental remediation and demolition costs.

Park (estimates)

<u>Sources of Funds</u>	<u>\$ millions</u>	<u>Uses of Funds</u>	<u>\$ millions</u>
City financing	\$18.0	Site acquisition	\$13.9
Other govt. grants	1.0	Demo., enviro.	3.8
Vikings donation	1.0	Basic site, utilities	1.1
		<u>Soft costs, etc.</u>	<u>1.2</u>
<u>Total</u>	<u>\$20.0</u>	<u>Total</u>	<u>\$20.0</u>

A Park Committee is establishing the vision and drafting the principles that will guide the park's design. The City will decide on the final design of the park. The parties contemplate that the City will engage in the fundraising necessary for any improvements in the park, but is not legally obligated to. The City will also be responsible for the operations and maintenance costs of the park.

Parking Ramp

Total capital costs for the parking ramp on Block 1 are estimated to be approximately \$50.5 million. This includes approximately \$7.7 million for site acquisition, approximately \$39.4 million for site work, ramp construction, and design, and approximately \$3.4 million for development fee, contingency, and other soft costs. The City will provide financing by issuing bonds for approximately \$32.6 million of the capital costs, and the MSFA will fund approximately \$17.9 million.

Parking Ramp (estimates)

<u>Sources of Funds</u>	<u>\$ millions</u>	<u>Uses of Funds</u>	<u>\$ millions</u>
City financing	\$32.6	Site acquisition	\$7.7
MSFA funding	17.9	Construction, etc.	39.4
		<u>Other dev. costs</u>	<u>3.4</u>
<u>Total</u>	<u>\$50.5</u>	<u>Total</u>	<u>\$50.5</u>

Other Site Costs

The total of the other site costs are \$5.0 million. This includes approximately \$1.4 million for the structural foundation premium given the site conditions of the two office blocks and approximately \$3.6 million for demolition and the cleanup of soils on both blocks, and demolition of an areaway under 4th Street. To finance these costs, the City will provide financing by issuing

bonds for approximately \$4.4 million of the capital costs, and is seeking at least \$0.6 million in grants from other levels of government to fund the environmental remediation costs.

Other Site Costs (estimates)

<u>Sources of Funds</u>	<u>\$ millions</u>	<u>Uses of Funds</u>	<u>\$ millions</u>
City financing	\$4.4	Structural premium	\$1.4
<u>Other govt. grants</u>	<u>0.6</u>	<u>Demo, cleanup</u>	<u>3.6</u>
Total	\$5.0	Total	\$5.0

Aggregate Sources and Uses

The preceding three project components for which the City is providing financing roll up into the following sources and uses

Aggregate (estimates)

<u>Sources of Funds</u>	<u>\$ millions</u>	<u>Uses of Funds</u>	<u>\$ millions</u>
City financing	\$55.0	Park	\$20.0
MSFA funding	17.9	Parking ramp	50.5
Other govt. grants	1.6	Other site costs	5.0
<u>Vikings donation</u>	<u>1.0</u>		
Total	\$75.5	Total	\$75.5

Providing \$55 million in financing for capital costs to the project is estimated to require the City to issue approximately \$62 million in bonds, once the financing costs, such as capitalized interest and costs of issuance, are taken into account. The City expects to issue two series of taxable general obligation bonds: one related to the costs of the downtown park (approximately \$20.5 million, including financing costs) and another related to the costs of the parking ramp and the other site costs (approximately \$41.5 million, including financing costs).

Debt Service Payments

The expected sources of payment for the debt service of these bonds will be required payments from Ryan Companies US, Inc. to the City as long as the revenue arrangement with Ryan is in effect, minimum 10 years, and the income from the parking ramps directly once the revenue arrangement with Ryan ends.

Ryan Companies will make scheduled, pre-determined payments to the City for, at a minimum, the first ten years of parking ramp operations. These payments are as follows:

2016	\$2,750,000
2017	\$2,980,000
2018	\$3,420,000
2019	\$3,440,000
2020	\$3,550,000
2021	\$3,640,000
2022	\$3,650,000
2023	\$3,725,000
2024	\$3,800,000
2025	\$3,860,000

Ryan's obligation to make these payments will be an unconditional obligation of the Ryan parent company. The City will perform financial due diligence on Ryan's ability to meet its financial obligations to the City.

The City will use these required payments from Ryan to contribute to the annual debt service. Current projections show that the scheduled payments from Ryan are sufficient to cover the anticipated debt service from both bond issues for the first ten years of the project.

Ryan's required payments will continue until the later of ten years or the second year that actual net operating income from the ramps reaches \$4.0 million. If the income never reaches this threshold, Ryan's payments will continue through the life of the bonds. The dollar amount of Ryan's required payment after the tenth year, if applicable, will escalate by two percent per year.

Once Ryan's payment obligation ends, all net operating income from the ramps flows to the City until the bonds have been retired. The City will use that income as the revenue source to make its annual debt service payments. If there is net operating income in excess of debt service in any year, the City will hold and reserve such excess in the event a potential future year results in debt service exceeding actual income. If annual debt service exceeds actual net operating income plus any accumulated reserve, the City would deploy other City resources to make the debt service payments.

Current projections show that the net operating income covers the City's expected total debt service once Ryan's payments end. Once the City's bonds are retired, the City will continue to receive five percent of the annual net operating income from the two ramps and the ramp owner, the MSFA, would receive the balance.

Financing Mechanics

The City expects to issue the bonds in early 2014. The interest rate on the bonds will not be set until then and could be above or below current rates. The City will use bond proceeds to provide acquisition and construction financing to Ryan for the park and construction financing to MSFA/Ryan for the parking ramp. This approach saves costs for the City since Ryan will not incur interest and financing costs for the private financing it would otherwise need to secure, with these cost savings passed on to the public entities. While the City will provide this acquisition and construction financing to Ryan for the park, the City will not take title to the property containing the park until Ryan has completed the park improvements, or may take title prior to completion if necessary to secure applicable grants.

The City intends to issue the bonds using its authority under the State Port Authority Act, Minnesota Statutes, sections 469.048-469.068. This authority provides the City flexibility for a range of financing uses and activities in connection with this project, including purchasing property or accepting financial assistance from other levels of government. To exercise this authority, the City will establish the Downtown East Office/Housing/Park Industrial Development District. Under state statutes, the term "industrial", when used in relation to industrial development, includes economic and economic development and housing and housing development. The statute further requires a public hearing on the establishment of the development district and a City Ordinance amendment (see exhibit).

In addition to issuing general obligation bonds, the City has and will submit applications for environmental remediation, redevelopment, and potentially other grants from other levels of government. The City expects to receive at least \$1.0 million in aggregate grant awards in

2014; this would be in addition to grants the City has already applied for in 2013. Since the results of the grants to be applied for in 2014 will occur after the City intends to issue its bonds, the City will not have the option to bond for any shortfall in grant awards below the \$1.0 million aggregate threshold, and instead would need to cover a shortfall with other City resources. If the City is successful in securing more than \$1.0 million in aggregate grant awards, the City will have a surplus that could be used for further enhancements to the park.

Development Rights

There will be development opportunity above and adjacent to the Block 1 parking ramp (see map), including the south side facing the park. As the owner of that block, the MSFA will transfer these development rights to the City, and the City will market the development rights and receive any net sale proceeds. Structural changes would be required to the ramp to accommodate development of air rights over the ramp. The City will issue a Request for Proposals for the development rights as soon as possible.

Equity and Inclusion Goals

Ryan Companies will agree to meet equity and inclusion goals for construction of the ramp, skyways, park, and other site costs. The goals for the ramp and the skyways, as MSFA-contracted components, will be those of the stadium equity plan, which are based on the City's goals. The City will set the goals for the park and other site components. In effect, for those four components of the project, the workforce hiring goals will be 32% people of color and 6% women. The subcontracting and other goals are yet to be determined, but will be based on a review by the City and MSFA of the applicable scopes of work.

Use of the Park

The park will be a major new park amenity in downtown Minneapolis. The park will be available for use by the public year round. Generally, the design and programming of the park will focus the entertainment and event purposes on the easterly block of the park and the recreational purposes on the westerly block. As mentioned, a Park Committee composed of stakeholders from neighborhoods and the business community, as well as other experts, is establishing the vision and drafting the principles that will guide the park's design.

The terms of use of the park will be reflected in a long-term agreement between the City and the MSFA that will include the following elements. The MSFA will have use of the easterly block for up to forty days per year. The Vikings will have use of the entire park during Vikings games days and up to ten additional days per year. The MSFA and the Vikings can restrict access to certain specific areas of the park on their specified event days; nevertheless, the general public will have access to the balance of the park during these events. The MSFA and the Vikings will be responsible for all event day expenses attributable to their events. The MSFA and/or Vikings will have control of concessions and marketing in the park during their events, with the exception of year-round businesses operating in permanent structures in the park. It is anticipated that the MSFA will seek an expansion of premises for its liquor license to include the park for MSFA and Vikings events.

The City, along with collaboration from the MSFA and the Vikings, will pursue fundraising for the capital and operating costs of the park, but has no legal obligation to do so. Contributors to the park will be recognized in a common way through signage that complies with applicable ordinances and is consistent with urban parks such as Millennium Park in Chicago. As noted in the park financing section above, the Minnesota Vikings have agreed to make a \$1 million charitable donation and will receive recognition consistent with these standards.

The condition of Park and Portland Avenues will affect the use of the park. Park and Portland Avenues are the jurisdiction of Hennepin County and will not be permanently closed. However, both streets could be closed temporarily during events to provide continuity to the park. Also, the streets may be redesigned to be narrowed and have a more “park-like” feel.

Project Benefits

The proposed project offers several benefits to the City.

- The project brings over \$400 million of investment, development, and amenities to an area that has languished largely as surface parking lots for decades.
- The project increases the tax base, with total projected additional property taxes of approximately \$3.9 million in the first year, including approximately \$1.1 million for the City. Assuming two percent escalation, over the time the City's bonds are outstanding, incremental property taxes to the City are estimated to be approximately \$40-45 million
- The project creates a new park amenity to be used and enjoyed by residents, downtown workers, and visitors.
- The project is transit-oriented with its strategic location next to the Downtown East light rail station where the Hiawatha and Central Corridor lines converge, as well as its access to bus service, bike lanes, and pedestrian connections.
- The office space supports 5,000-6,000 jobs downtown with the anchor user. The City will offer the office user workforce recruitment assistance to help Minneapolis residents compete for the jobs created.
- The project creates over 1,800 construction jobs for over 1.6 million hours of work. For the parking ramps, skyways, park, and other site costs portions of its project, Ryan Companies commits to meeting the same equity and inclusion workforce objectives as those that apply to the stadium project.
- The project adds hundreds of residents to downtown and brings new retail services.
- Ryan Companies will make at least ten years of payments to the City that are projected to cover the debt service on the bonds.
- Both the park and other development activity from the project should catalyze other development in the area, generating additional tax base and economic activity.